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ACCOUNTING FOR INTEREST AND TAXES¹

WILLIAM W. BRUSH: In all but one of the boroughs of New York City the water revenues are paid into the General Fund and all expenses, including interest on and amortization of bonds, are paid out of that fund, which is raised mainly by taxation. Under a special law the water revenues are used for the maintenance of the water system in one of the boroughs. The New York method makes it impossible to determine readily what are the actual revenues and expenses of the water works. There can be no question but that the accounts should show every transaction which affects the water supply, on either the receipt or disbursement side. Further, every service rendered by the water works should be charged against some account on the books. The Bureau of Water is working toward this ideal and trying to obtain proper credits for water used in fighting fires, cleaning streets, supplying public buildings and other services rendered to other municipal departments.

Water works officials should devise a scheme whereby it can be readily shown what sums are paid for the maintenance and operation of a plant, interest charges and amortization of bonds, as well as the proper charges for parts of the works built by the proceeds of bond issues already retired. On the other side of the ledger should be shown the revenue that should be credited to the water works, including every item ordinarily considered a free service but which is a service for which a credit should be given. An item of estimated taxes against the works and all other proper charges should be entered in the cost of maintenance of the works. If all water works organizations keep such records and make a comparison with the accounts of other communities it will be possible for each official to find out if he is omitting some item and to learn what has been the real cost of supplying water and what would be the income of the plant if free service was eliminated.

R. B. HOWELL: Whether taxes are charged against a municipal plant is immaterial except in comparing the expenses of municipal

¹ Informal discussion at Richmond Convention, May 10, 1917.

and private operation under like conditions. If taxes are taken into consideration in a municipal plant the accounts should also show the sums set aside for the amortization of the plant's bonded indebtedness, which may be more than the taxes would amount to.

In Omaha the water works have been owned by a special district, now practically the same as the city, for about four and one-half years. In the year when the first bonds were voted to buy the plant, the taxes paid to the city by the Omaha Water Company amounted to about \$14,000. Last year, out of the revenues of the plant, something over \$137,000 was set aside to amortize the bonds. Two years ago the Nebraska legislature passed an act requiring the state authorities to audit the books of the Metropolitan Water District of Omaha, and in the audit there was charged against the earnings of the plant as possible taxes for 1916 something over \$140,000, or about ten times what the water company had paid a few years before.

The Omaha Department is not allowed to charge the city anything for water for public use, but the city must contribute not less than 3 mills on one-fifth of the value of the water works property within the city, for fire-hydrant service. The income from this source is about \$140,000, or between \$50 and \$60 per hydrant annually. An estimate of the amount the city ought to pay for water, based on formulas recommended by members of this Association, is about 40 per cent of the total revenue, whereas it is paying less than 20 per cent.

Unless city departments are charged for water just as individuals are charged, there will be great municipal waste of water. For instance a number of swimming pools are being built in Omaha and a demand is made to refill each pool daily. As some of the pools are very large, the quantity of water required for them will be great, and if the Park Department had to pay for this water it would soon devise some method of purifying it so that the supply could be used over and over, as is done elsewhere.

J. WALTER ACKERMAN: The Water Department of Auburn, N. Y., is independent of other branches of the city government, except that it must pay taxes on the portion of its property outside the city limits. The Department charges the city the regular meter rates for water used in all public buildings and also charges a hydrant rental to cover the cost of fire protection. This rental is

probably too small, but it is at least an attempt at sound finance in this matter. The city charter, which is an old one, provided that the sum paid annually for hydrant rental must not exceed a certain total sum, which is the reason that this item in the Department's financial affairs leaves something to be desired. The Department pays all interest charges on its indebtedness and has a sinking fund for retiring all bonds as they become due; the sinking fund can be used for no other purpose, under the law.

HENRY P. BOHMANN: In Milwaukee no distinction is made between a municipal department and a private consumer. At the close of the year the city comptroller credits the Water Department with the sums charged to the other municipal departments for the water supplied to them. The hydrant rental is merely a nominal sum, \$5 a year, and does not pay for the inspection, let alone the maintenance. It was not fixed by the State Railroad Commission, which would probably allow at least \$25 or \$30 if the rate was submitted to it for determination. The amount collected from the city last year was \$160,000, but the Department pays \$200,000 annually into the general city fund, to be applied to the reduction of the general taxes and it pays the interest on its bonds and retires them when they become due.

GEORGE A. MAIN: In Daytona the annual charge for fire protection is not based entirely on the number of hydrants, but is \$500 per mile of main plus \$10 per hydrant. In this way the heavy investment expense for large pipes with few hydrants is equalized with the lower cost of smaller pipes having more hydrants. The city is charged a rental for Department property used by it and credited for services it renders, bonds it pays and a sum estimated to be the tax were the works owned by a private corporation. While the Department pays no taxes, the estimated taxes are charged against it in order that the affairs of the Department may be compared with those of privately owned works.

FRANK A. KIMBALL: In New Jersey the same system of accounting is supposed to be followed by both public and private water works and other public utilities, but there are some municipal plants that have not yet been forced to comply with the law and regulations. The system of accounting provides for the entry of all

charges or credits for interest and other items, whether collected or not. Where a city department is charged for water, light or anything else, and the charge is not to be collected, the items are carried out in a "duplicate adjustment account." Thus all expenses and all income are shown by their proper accounts, whether actually collectable or not, and the true financial status of the utility as well as its status after the introduction of the duplicate adjustment account can be ascertained.